

# Balanced budgets, employment & growth

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Balanced budgets, full employment and economic growth. The conferences this year fire the first shots in what ought to be a landmark election. Another go at the problems never resolved in the ideological dispute of Keynesianism and Monetarism. So Keynes was discarded in 1979 and Friedman in 1997. In between Thatcher and Lawson had only limited success in their efforts to scale back the size of government and the minimalist monetary controls idea was discredited somewhat by our 1992 exit from the ERM. 15 years of prosperity that followed submerged the argument while we competed on who would promise to spend more on public services in every department. The 'end of boom and bust' was the end of politics.

With hindsight the two spectacles of dazzling abundance, the city and public services, are now seen as conjoined bubbles, the one funded on bumper tax revenues from the other. In Dr. Cable's words "temporary windfalls treated as permanent". There was a bonanza of spending but it was not Keynesian. With hindsight, perhaps a prudent chancellor would have reflected on Joseph in Egypt. But that was then. Now, more spending is called for and this time Keynesian.

## Heading off depression

Keynes' solution to the 1930's depression was to see it as a collapse of demand. Of which there were three sources. The first, Consumption, is dependable. Families can be relied upon to do the weekly grocery shop unless suppressed by unemployment. The second, 'Investment demand', is volatile. Business leaders are governed by a hunch, what Keynes called 'animal spirits'. If the future feels uncertain they hold back. It is partly self-fulfilling and the whole business community lurches in one direction and then the other. Keynes argued that the only conscious entity in the picture, the third source of demand, is Government; and while the other two, taken on aggregate, are bound by their natures, government can and must act. It should commission public works, roads, etc and thereby stimulate recovery.

## Labour return to Keynes

Labour's conference speeches were liberally laced with Keynesian sentiments. Mandelson expressed it most directly: "when private demand plummets, government must step in". He was echoed in Alistair Darling's claims to have "bought forward capital expenditures on schools and hospitals" and Ed Milliband's "investing in low-carbon technologies. That's the role of government". Darling again: "Stepping in, not stepping back."

## Stuffing jars with £5 notes

All parties seemed to promise to invest in low carbon, renewables, biotechnologies and high speed rail. And what can be wrong with that? Hasn't it always been the prerogative of the Prince to build fine cities? Keynes advocated such works. But if for any reason they were not possible, rather than do nothing, it would be better to stuff jars with £5 notes and bury them for the people to dig up on the tried and tested principles of *laissez faire*. That would at least stimulate demand. He was making a point. But after the stimulus, what dangers lie in schemes that were not usefully productive to start with?

Boris opened the Tory party conference quipping that we have a department in Offsted for handing out diplomas in babysitting to police officers. George Osborne followed up with plans to cut a third off the public sector wage bill by removing regulators, inspectors and central planners "whose job is second guessing the judgement of professionals and local councillors". Are these the jar-stuffers of a post-Keynesian spending habit? And are we now counting the cost?

## Fiscal responsibility

According to Vince Cable, we are "not bankrupt but in bad shape" with tax receipts at their lowest ebb as a proportion of GDP since 1957. Labour target halving the deficit in 4 years. How? By passing a "Fiscal Responsibility Act" which would make them keep the promise? And a hike in the top rate of tax for earners over £150k. Nick Clegg found it necessary to coin the term "Progressive Austerity" probably the most excruciating couplet since his 2007 "Muscular Liberalism". There were promises to scrap Trident (Libdems), scrap RDAs, cut the number of MPs by 10% or more, freeze "mandarin" civil servants' pay (Tories and Libdems) and to "cut waste, cut costs and cut low priority budgets" (Labour). All agree there will be cuts in spending "but not in front line services". This notion of irreducible "front-line services" implies a "back-room", presumably administrative, that *can* be cut. In fact the elephant, the significant unnamed big spend is Welfare. It dwarfs services both front and back. Now the question is how many of the 6m public sector workers are scheduled to be added to it? George Osborne's one third?

## Employment

What David Cameron meant by "Broken Britain" was unemployment. 2.5m official unemployed; 2.6m more on Incapacity Benefit of whom 0.8m have been for



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more than ten years; 1 in 5 young people unemployed; 1 in 6 children in workless families; 5m "have never worked". Vince Cable said unemployment had risen by 0.75m in the last 12 months while Alistair Darling reckoned it was still lower here than in both the Euro area and the US. All agreed to keep or extend the government's successful Welfare-to-Work programme. There were aspirations and targets. Labour hoped 50% would be off Jobseekers' Allowance in 3 months, 75% in 6 months. Guarantees for 16-24s of work, training, further education or apprenticeships. To which the Libdems added the voluntary sector and care work. But if government is funding all these, where is the saving? And where will the newly trained go thereafter? Was any party credibly proposing to boost employment outside the public sector?

## Taxation

Promising firms that their first 10 new employees would be "tax free", the Tories tacitly acknowledge the principle that taxation per head of employees stifles enterprise and discourages employment. And that by lifting such taxes you create employment. But the actual policy was a trifling gesture aimed at ENIC only and ignoring the fact that NIC and Income Tax are no different. And lacking a firm anchor to the principle, the policy is shaky. Surely firms would sack people and re-employ them on the new terms? Or create outsourcing vehicles to do so?

The LibDem policy to raise the income tax-free threshold to £10k honours the same principle explicitly and applies it properly. To lift 4m out of the income tax net altogether is to give a real boost to enterprise and employment, not in favoured industries, as Mandelson's car scrappage scheme (extended), but right across the board. There are no distortions and no costly means testing inviting evasion. "Beyond that we've got to lead the debate on tax reform as a Liberal government did a century ago with the People's Budget" Dr Cable's stated direction of travel is to shift taxation off employment and production and onto pollution, "questionable financial transactions" and land values. Credible and worth voting for.